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Environmental, Social and Governance (ESG) Strategy Implementation Plan During the Covid-19 Pandemic at Retail Company “X” in Jakarta

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Abstract. Covid-19 affects most of the retail industry in Indonesia, including PT “X”. With 99% of sales coming from offline store channels, PT “X” needs to analyze a systematic framework to integrate ESG into its business in order to improve its ESG ranking. For this reason, PT “X” needs to reformulate its business strategy in order to survive and even win retail competition during the Covid-19 pandemic. Considering that ESG is an important factor for a public company such as PT “X”, it is very important for PT “X” to raise its ESG rating in order to increase its competitive advantage and competitiveness in the global retail industry. This study analyzes ESG integration strategies during the pandemic within the scope of retail management to maximize value and minimize company risk. Therefore, PT “X” created a framework to integrate ESG into the business and then communicated that framework internally and externally to the organization. This qualitative research uses primary data through Focus Group Discussions to the company's top management, as well as secondary data obtained through literature studies, journals, and company internal data. The ESG integration steps undertaken by PT “X” are setting overall goals, budgeting, evaluating opportunities, building an ESG framework, building a sustainability team, checking progress, and improving performance. PT “X” then analyzes the steps for implementing ESG in order to increase competitive advantage and competitiveness in the global retail market that leads to company sustainability. For companies looking to strengthen environmental, social and corporate governance (ESG) practices, it is necessary to fully review the business and reorganize it responsibly through a holistic, top-down approach to implementing an ESG strategy, implementing elements of objectives, and sustainability at the core towards successful ESG implementation.

Keywords: ESG, Strategy, Retail, Pandemic, Sustainability, Integration

INTRODUCTION

The Covid-19 pandemic has had a major impact on business development, including the retail industry in Indonesia. PT “X” whose majority share ownership is foreign investors with 84% is also affected by this pandemic. With the large number of offline stores of PT “X” that are spread in almost all corners of the country, it is very important for PT “X” to reformulate its business strategy in order to survive and even win retail competition during this pandemic. Environmental, Social and Governance (ESG) is currently important to get more attention for companies and stakeholders. PT “X” needs to start implementing ESG values into its business operations, because it is a public company, and the majority shareholder of PT “X” is a foreign investor who is sensitive to ESG issues, so having a better ESG rating will increase confidence investors. A 50 to 60 percent increase in ESG is on cost reduction, so reconciling targets versus expenses is a reasonable starting point [1].

The next episode of business sustainability is the evolution of ESG as a management approach within companies. Businesses should no longer just hope to mitigate negative impacts, but actually manage their growth, profitability and resilience through the lens of ESG and its opportunities [1]. There is a significant positive

correlation between variables that can be explained by organizational legitimacy. The results raise the question of whether the way the ESG score measures corporate sustainability benefits larger firms with more resources while not providing sustainability rating investors with the information they need to make decisions based on their beliefs. Investors should reopen the discussion about what sustainability rating agencies measure with ESG scores, what exactly needs to be measured, and whether the sustainable finance community can achieve the goals they set for themselves with these measurements [2]. Worldwide registered company are shifting from short-term profit maximization goals to long-term sustainable environmental, social and governance (ESG) goals, that ESG has become an important source of corporate risk that can affect the company's financial performance and profitability [3]. The results of the total ESG performance show that ESG has a positive and significant effect on the company's financial performance, where companies with high ESG show high financial performance compared to companies with low ESG, and the results showed that firm size moderated the relationship between ESG performance and firm financial performance [4]. The results of other studies show that the economic, environmental, and social aspects have a significant positive effect affect the company's market performance [5].

Good ESG performance can improve financial performance which has important meaning for investors, company management, decision makers, and industry regulators, and there is a positive effect of the ESG factor on firm profitability, and the effect is more pronounced for larger firms [6]. There is a significant positive impact of ESG on performance, where the relationship between ESG disclosure varies when measured individually [7]. Among the various ESG categories, corporate governance has the most significant impact, especially for companies with weak governance [6]. The concept would be eventually become an appreciation that companies are part of the solution to many of the world's current and emerging challenges.

More and more segments of the investor community are seeking greater clarity and comparability regarding the relative performance of companies on ESG issues. Meanwhile, ESG reporting standards have encouraged greater forms of transparency over the last few years [8]. Empirical results show that portfolios using ESG are superior to traditional investment strategies in many aspects, and simultaneously can achieve higher investment consistency and social value [9]. Of these ESG factors, governance factors have the most important influence on company market value [10]. This Covid-19 crisis marks that environmental, social and good governance factors will have significant implications for the company.

PT "X" went public in 2007 by listing 40% of its shares on the Indonesia Stock Exchange (IDX). By the end of 2020, "X" had 210 outlets throughout Indonesia. This increase is also reflected in the net profit after tax margin as shown in the table 1.

TABLE 1. Financial Performance "X" 2015-2019

	2015	2016	2017	2018	2019
No of stores	117	129	144	176	197
Sales (in Bn)	4,742.5	4,935.9	5,938.6	7,239.8	8,142.7
Net profit after tax (in Bn)	584.9	706.2	780.7	976.3	1,036.6
Gross profit margin	47.5%	47.6%	47.7%	47.6%	47.7%
Net profit after tax margin	12.3%	14.3%	13.1%	13.5%	12.7%

source: "X" Annual Report, 2019

The consistent financial growth of this financial indicator is the result of increased opportunities from the PT "X" customer segment due to expansion and economies of scale. This is reflected in the decline in sales and store network to profitability. Based on a survey conducted of the leading securities firm as the majority stakeholder of "X", it was found that 85% said ESG was very important to them. This shows that the company is not only assessed from the profit side but also from the ESG factor. Other research findings show that ESG disclosure improves firm performance even after controlling for competitive advantage [11]. Therefore, it is very important for PT "X" to analyze the steps for implementing ESG in order to increase its competitive advantage and competitiveness in the global retail market that leads to the company's sustainability.

METHODS

The object of this research is PT "X", one of the largest retail companies in Indonesia, which is located in Jakarta. While the subject of this research is a representative informant who is able to represent to provide complete and accurate information. Determination of the informants of this research purposively, namely to obtain valid data and can answer the problem formulation clearly stated. The criteria for the research subjects are to understand the strategy of PT "X" well for at least five years, and to be involved in implementing the strategies that have been carried out so far. Based on these criteria, there are six research subjects who are directly related to the strategy carried out by PT "X", namely Head of Marketing Communication, Head of Merchandising, Head of Operations, Head of Financial, Head of Information Technology, and Head of Human Capital Development.

The type of data in this research is primary data, which was obtained by doing interviews, observations, and Focus Group Discussions. Primary data will be collected through FGD with the leadership of PT "X". Whereas, the secondary data was obtained from internal resources through documents, proposals, annual reports, social media, and website. External resources are obtained from scientific books, journals, literature study, and articles related to ESG. The sampling method in this case is done by using one of the methods in non-probability sampling, namely convenience sampling. Convenience sampling is a technique for selecting samples by considering the ease of obtaining research data [12]. The data analysis method uses qualitative analysis which will explain the results of the research on the things described in the form of a narrative. The data analysis technique uses an interactive model from Miles and Huberman, namely data reduction, data display, and verification [13]. The technique of checking the validity of the data (triangulation) used is to compare the level of confidence in the information obtained through qualitatively different time and tools [14]. Therefore, in analyzing the "X" strategy in implementing ESG is to first understand what actions and strategies have been taken in the situation and then take a more systematic approach for the implementation phase in the future.

RESULT AND DISCUSSION

Covid-19 pandemic is a new situation that causes most of business collapsed. One of the retailers in Indonesia is PT "X", needs to reformulate the strategy as soon as possible, because the annual work plans that were prepared last year are no longer relevant to the conditions of pandemic. In 2020, the strategy of PT "X" can be divided to four phases:

a) Pre-Covid in Indonesia (January 2020 – February 2020)

When the Covid-19 started to emerged in Wuhan, China in early January 2020, PT "X" still do business as last year planning. By the end of January 2020, PT "X" start to highlight the products to prevent the virus. In February 2020, PT "X" decide to campaign program that more relevant with health and wellness.

b) Covid Breakout in Indonesia (March 2020)

When Covid-19 was first confirmed in Indonesia, PT "X" launched a new campaign stating that they are with customers to fight this pandemic together. At that time, PT "X" focused on procuring and selling health and fitness products that customers needed. They also set strict Hygiene Standards and Protocol Rules in the internal areas of the store, head office and distribution center. This helps PT "X" to enter into a business field that is allowed to open and operate on a limited basis during the PSBB. Internally, PT "X" implements a policy of working from home, especially for employees who are elderly or have a history of serious illness. PT "X" is also committed not to cut salaries and reduce employees.

c) PSBB (April 2020 – May 2020)

Most malls in big cities are closed and people have to stay at home because of the PSBB. In this situation, PT "X" is more focused on developing online marketing channels so that useful services can also be felt by their online customers. PT "X" has also launched an official store on other online websites so that it can expand its target market and take advantage of the momentum of increasing online shopping habits in the midst of the pandemic. PT "X" also created a new campaign to increase awareness of their online channel, so that customers can still buy products with the free delivery program and can shop via telephone and whatsapp chat. The PT "X" team also focuses on digital content in its marketing, such as e-catalogue, e-brochure, and other inspirational videos. During the Covid-19 pandemic, PT "X" also started donating Corporate Social Responsibility, such as hazmat suits, medical masks, hand sanitizers, and other medical devices to hospitals, medical officers, and other field workers. The management of PT "X" is committed to routinely disinfecting workplaces and shops, conducting free rapid tests for its employees on a

regular basis, as well as cooperating with related parties such as referral hospitals outside Jakarta to treat employees who are positive for Covid-19 until they recover for free. They also provide Hari Raya Allowance (THR) to all their employees in May 2020.

d) New Normal (June 2020 – December 2020)

This is the time when people begin to adapt to the pandemic, but PT "X" still strictly maintains the rules of Standards and Hygiene Protocols, especially in shops. During this period, PT "X" launched a new campaign, which was more about how to make customers more comfortable at home. In addition, a healthy lifestyle is also emphasized in this campaign, in November 2020 PT "X" launched the "Mobile Interactive Shopping Solution" application. PT "X" also continued its CSR donations to hospitals, health centers, and funeral workers.

By always prioritizing customer satisfaction, PT "X" has made strategic changes that must always be relevant to the rapidly changing conditions during the pandemic. PT "X" also shows that employees are their most valuable asset and they remain committed to expanding the market during the pandemic. As part of starting the ESG movement at PT "X", they have carried out several ESG initiatives from 2020 to early 2021 which they reveal on their website and social media.

ESG Integration Framework into PT "X" Business

It is important to understand whether the financial performance of PT "X" has been going well with all the initiatives they have undertaken in 2020. Based on the financial review analysis in the retail sector, PT "X" was able to show strong fundamental performance in 2020. Even though sales and profits grew minus during a difficult pandemic, PT "X" was in the highest position by maintaining a Net Profit Margin of 9.9%, highest compared to their peers. Based on the stages of ESG steps that have been carried out by PT "X" during 2020, it can be seen that despite a decline in sales in 2020, the number of foreign ownership in PT "X" is still high at 84%.

Although PT "X" has started several ESG initiatives in 2020, the management of PT "X" feels the need to be more systematic in this ESG movement, so that all stakeholders can be involved and benefit. The management of PT "X" believes that the implementation of ESG has a good impact on the sustainability of their business and can bring more competitive advantages for PT "X". To start the analysis, PT "X" needs to know their current position, so that they can determine the right strategy and action plan. The ESG rating of PT "X" was analyzed using MSCI and Sustainalytics. When a rating agency conducts an ESG assessment, there are at least three sources, namely the Company's Website, Annual Report, Sustainability Report, and news related to ESG issues.

PT "X" needs to create a framework to integrate ESG into the business and communicate that framework internally and externally. To give the right direction, PT "X" will follow the steps that have been taken by Goby (ESG Consulting Company) and adjust to the business conditions of PT "X" to make it more relevant. An ESG implementation framework is generally more comprehensive than a protocol and more prescriptive than a structure. PT "X" carefully follows and develops plans and strategies according to the steps, although the order is not necessarily the same. Here are the steps:

- (1) Set Overall Goal. In terms of goals, companies need to determine challenges, targets, implementation time and strategies. Because ESG needs to be incorporated into the corporate culture, PT "X" deliberately sets two different goals based on different timeframes, namely: (a) Short-term goal. The identified factors are the challenge that ESG is new to the company; targets are to achieve an 'A' rating by MSCI for global recognition and to maintain a low risk rating by Sustainalytics; and the implementation time of the objectives is 1 year; the strategy used is to achieve conventional goals (which aims to reduce the negative impact of the company's existing operations and to increase the value of existing product offerings to stakeholders such as investors, employees, suppliers, communities and government) and determine transformational goals (seek to make changes throughout the value chain and their communities); and (b) Longer-term goal. The identified factors are the challenge of how to realize ESG in the corporate culture and involve all employees; the target to be achieved is to improve the implementation of all ESG aspects and provide sustainable value to all stakeholders; the implementation time of the objectives is 5 years; and the strategy used is to review the company's plans continuously by considering the developing conditions and then carry out and review the transformation initiatives on an ongoing basis.
- (2) Create The Budget. PT "X" hopes that there will be no significant increase in operational costs related to ESG because this initiative is carried out by PT "X" itself. In addition, PT "X" encourages eco-living campaigns for employees and carries out CSR activities on a regular basis.

- (3) Evaluate Opportunities. In this step, PT “X” must perform the following steps: determine the portfolio classification; transforming available raw data into actionable insights and efficiencies; identify top and bottom performers across portfolios; and utilize continuous monitoring to conduct audits and enable proactive maintenance.
- (4) Building an ESG Framework. The ESG framework was determined by answering the following questions: (a) How does the sustainability reporting plan apply to the entire portfolio? PT “X” realizes this through socialization and coordination for harmonious implementation in all departments; documentation initiation; and the impetus of every possible quantification. (b) How to monitor progress and reach goals? PT “X” makes a monthly plan which is the basis for performance evaluation and corrective actions. (c) What benchmarking standards are used? Some of the standards used are GRI (Global Reporting Initiative); POJK regulations; SASB for Specialty Retailers; and the Sustainable Development Goals. With additional benchmarks in the form of practices and peer reports, as well as reports from rating agencies. (d) What is the form of compliance as reporting to government agencies? Sustainability Reports.
- (5) Build a Sustainability Team. PT “X” formed a special work team on sustainability with members chosen as leaders from all departments, called the ESG Team. This team is led by a president director and coordinated under the Corporate Secretariat department. PT “X” has also formed an ESG community among employees to accelerate the socialization and implementation of ESG internally.
- (6) Check Progress. Several meetings were held to check progress, namely monthly ESG Core Team Meetings discussing new strategies, benchmarks and initiatives; then the ESG Big Team meeting every two weeks, which discusses updating the progress action plan, evaluation, data collection; and ESG Annual Meeting to update ESG to Management/Board and present Sustainability Report.
- (7) Improve Performance. Promoting success stories and efforts to adopt ESG is very important for companies, which will be conveyed by:

TABLE 2. Communication Media to the Stakeholders of PT “X”

Audience	Internal Communication	Social Media	Company Website	News/Public Media	In-Store Communication	Sustainability Report	Public Expose	Investor Relation
Employee	√	√	√	√	√			
Customer		√	√	√	√			
Civil Society		√	√	√	√	√		
Shareholders		√	√	√		√	√	√
Government		√	√	√		√	√	

The limitations of this research are: (a) the scope of the research is only on the retail company PT "X" only; (b) this research was conducted during the Covid-19 pandemic, so some strategies are more relevant during the pandemic; and (c) this qualitative research only uses observation and interview methods through Focus Group Discussion in primary data collection.

The results of this study only apply to PT "X", and further research can be carried out in other retail companies or other business fields in Indonesia. Further research can also be conducted to examine the relationship and influence of each retail company's ESG rating on global industry position.

CONCLUSION

Environmental, Social and Governance (ESG) is a series of initiatives undertaken by the company to ensure that the business it runs is in accordance with the standards and rules set to reduce negative impacts on the environment, society and all stakeholders involved. This shows that the company is not only assessed in terms of profit but also from the ESG factor. Therefore, PT "X" took a strategic step that showed that PT "X" was ready to integrate ESG into its business and implemented an ESG strategy that was relevant to the condition of PT "X" during this pandemic, thus making PT "X" able to survive and has a competitive advantage over other retail competitors. In the financial sector, PT “X” was able to show strong fundamental performance in 2020. PT "X" created a framework to integrate ESG into the business and communicated the framework to internal and external

parties. ESG is still a holistic approach, but will be an individual goal, and integrated into every element of the company to increase investor confidence which leads to an increase in the value of the company.

ESG implementation frameworks are generally more comprehensive than structures. The ESG integration steps undertaken by PT "X" are setting overall goals, budgeting, evaluating opportunities, building an ESG framework, building a sustainability team, checking progress, and improving performance. For companies looking to strengthen environmental, social and corporate governance (ESG) practices, need to fully assess their business and reorganize it responsibly by taking a holistic, top-down approach to implementing an ESG strategy, implementing elements of purpose, diversity and sustainability as the core towards successful ESG implementation.

The stages of the ESG strategy that have been integrated by PT "X" are expected to increase business growth and company value in order to increase the sustainable competitiveness of PT "X" among its competitors in Indonesia and globally. The implication of this study is that it is necessary to review the level of ESG disclosure with high ESG disclosure scores associated with higher competitive advantage. So that policy makers can improve the regulatory framework by including ESG in various investment activities and initiatives to create added value for the company's sustainability. The ESG initiative steps that have been carried out by PT "X" are expected to bring benefits and added value to stakeholders who are believed to be able to bring business continuity to PT "X" now and in the future.

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